

*State of Indiana*



# A REPORT TO INDIANA CITIZENS ON THE STATE'S FINANCES

DECEMBER 31, 2001



Connie K. Nass, Auditor of State

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# *Auditor of State*

*Connie Kay Nass*

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Dear Indiana Citizens:

I am pleased to present the latest edition of "A Report to Indiana Citizens on the State's Finances." This guide explains Indiana's fiscal condition in a straightforward and accurate way that is relevant to Hoosier families.

One of the conclusions reached in our last report was, "State government is virtually broke." Sadly, that is still true today. The bottom of page three illustrates how state government spending has outpaced inflation by an average of 5.8% per year over the past decade. It also shows revenue over the past two years actually shrunk by 0.7% while spending increased by 3.7% in 2000 and 9.8% in 2001. Excessive spending has eliminated the general fund surplus.

Thankfully, there are restricted, dedicated funds that exist independent of the General Fund. These funds provide for items such as unemployment insurance, highway maintenance, pension funds, medical assistance to wards, and other items. This means that despite the disappearance of the general fund surplus, the State will still have enough money to meet your needs and the needs of Hoosiers across the state.

It is clear that spending has been excessive. It has also been accompanied by the loss of 55,600 Hoosier jobs in non-agricultural fields from July 2000 through November 2001.\* It is not difficult to see how this loss of jobs contributed to the erosion of our tax base and placed Indiana in desperate need of attracting and expanding industry, jobs, and the revenue they generate. A serious plan of economic development will help to revitalize the fiscal health of our state.

If you have questions or comments, you may e-mail me at [comments@audlan.state.in.us](mailto:comments@audlan.state.in.us), or call (317) 232-3300. You may also view this report and other information on our website at [www.in.gov/auditor](http://www.in.gov/auditor).

Sincerely,

Connie Nass  
Auditor of State of Indiana

## General Fund — GAAP Basis

Balance Sheet June 30, 2001 (in millions)		Statement of Revenues, Expenditures and Changes in Fund Balance for the Fiscal Year Ended June 30, 2001 (in millions)	
Assets	<u>\$ 3,757.8</u>	Revenues	\$ 8,705.4
Liabilities	1,958.7	Expenditures	<u>(8,635.5)</u>
Fund Balance		Excess of Revenues over Expenditures	69.9
Reserved	354.4	Other Financing Sources (Uses)	<u>(1,159.1)</u>
Unreserved	<u>1,444.7</u>	Excess of Revenues and other Financing Sources over (under) Expenditures and Other Financing Uses	(1,089.2)
Total Fund Balance	<u>1,799.1</u>	Fund Balance, July 1, 2000 - restated	<u>2,888.3</u>
Total Liabilities and Fund Balance	<u>\$ 3,757.8</u>	Fund Balance, June 30, 2001	<u>\$ 1,799.1</u>

As required by Generally Accepted Accounting Principles (GAAP), the State's year-end financial report is issued after various closing entries have been made to adjust the State's cash-basis financial records. The adjustments are made to ensure that revenues and expenditures are reported in the appropriate financial reporting period, rather than solely on the basis of when cash was collected/paid.

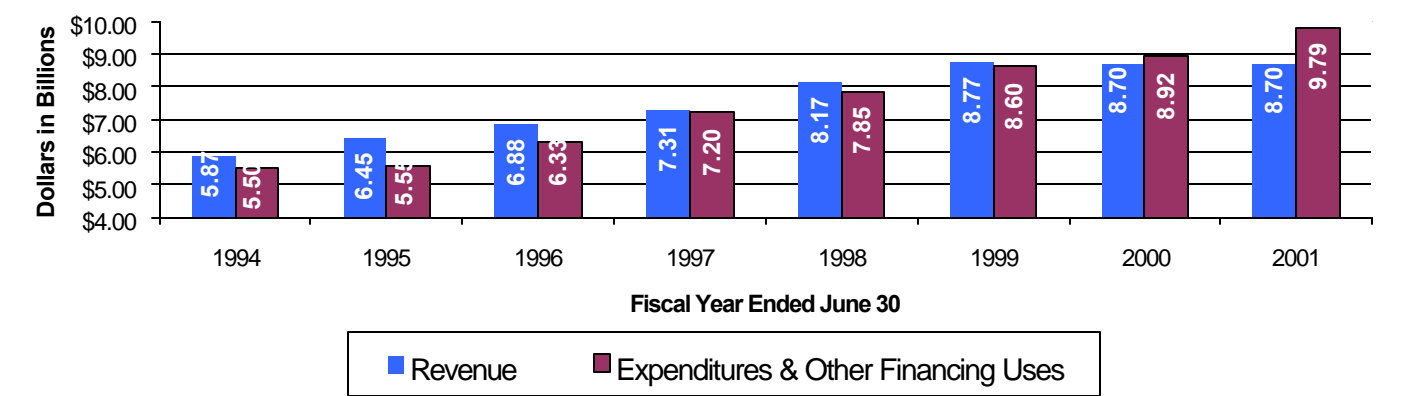
### **Cash and Investment Balances (all funds) as of December 31, 2001**

The table shown below breaks out the December 31, 2001 cash and investment balance between those accounts that are used to calculate the budgetary surplus and all other accounts. The amounts listed as "Rainy Day Fund" and "Medicaid Reserve" are accounted for in the General Fund cash balance. The "Property Tax Replacement Fund" is accounted for in the Special Revenue Fund cash balance. A more detailed explanation of the budgetary surplus is contained on page 4 of this report.

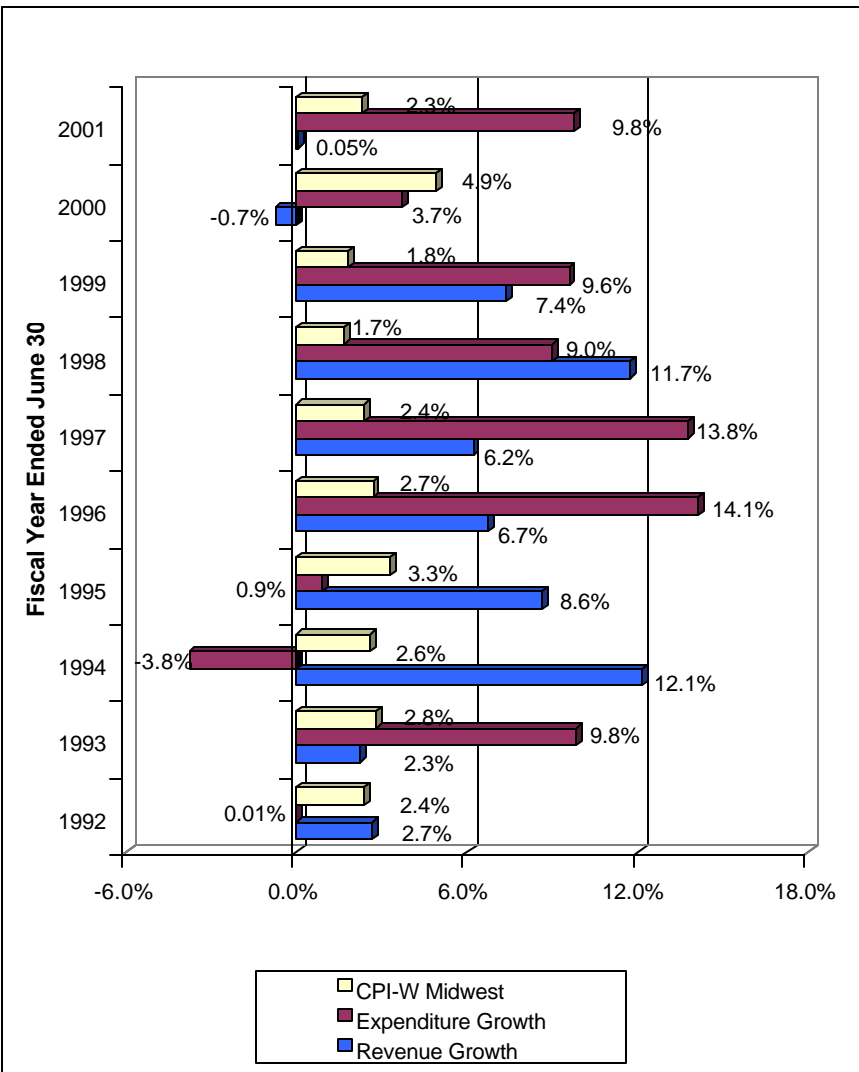
	Accounts Used In Calculating <u>The Surplus</u>	Accounts Not Used In Calculating <u>The Surplus</u>	Total <u>All Accounts</u>
General Fund Cash and Investments	\$ (1,304,767,791)	\$ 1,002,641,467	\$ (302,126,324)
Rainy Day Fund	526,260,143	-	526,260,143
Medicaid Reserve	100,000,000	-	100,000,000
Total General Fund Cash and Investments	<u>(678,507,648)</u>	<u>1,002,641,467</u>	<u>324,133,819</u>
Non General Fund Cash and Investments		2,555,346,092	2,555,346,092
Property Tax Replacement Fund	<u>364,568,570</u>	-	<u>364,568,570</u>
Total Non General Fund Cash and Investments	<u>364,568,570</u>	<u>2,555,346,092</u>	<u>2,919,914,662</u>
Grand Total All Funds Cash and Investments	<u>\$ (313,939,078)</u>	<u>\$ 3,557,987,559</u>	<u>\$ 3,244,048,481</u>

# Revenue vs. Expenditures (plus other financing uses) General Fund (GAAP Basis)

The following graph illustrates the revenue and expenditures (plus other financing uses) of the General Fund for the past eight fiscal years, as reported in the Comprehensive Annual Financial Report (CAFR). Other financing uses include transfers to funds outside of the General Fund. Expenditures have exceeded revenues the past two years, and in the most recent fiscal year, expenditures exceeded revenue collections by more than \$1 billion.



# Growth in Revenues and Expenditures (plus other financing uses) General Fund (GAAP Basis)

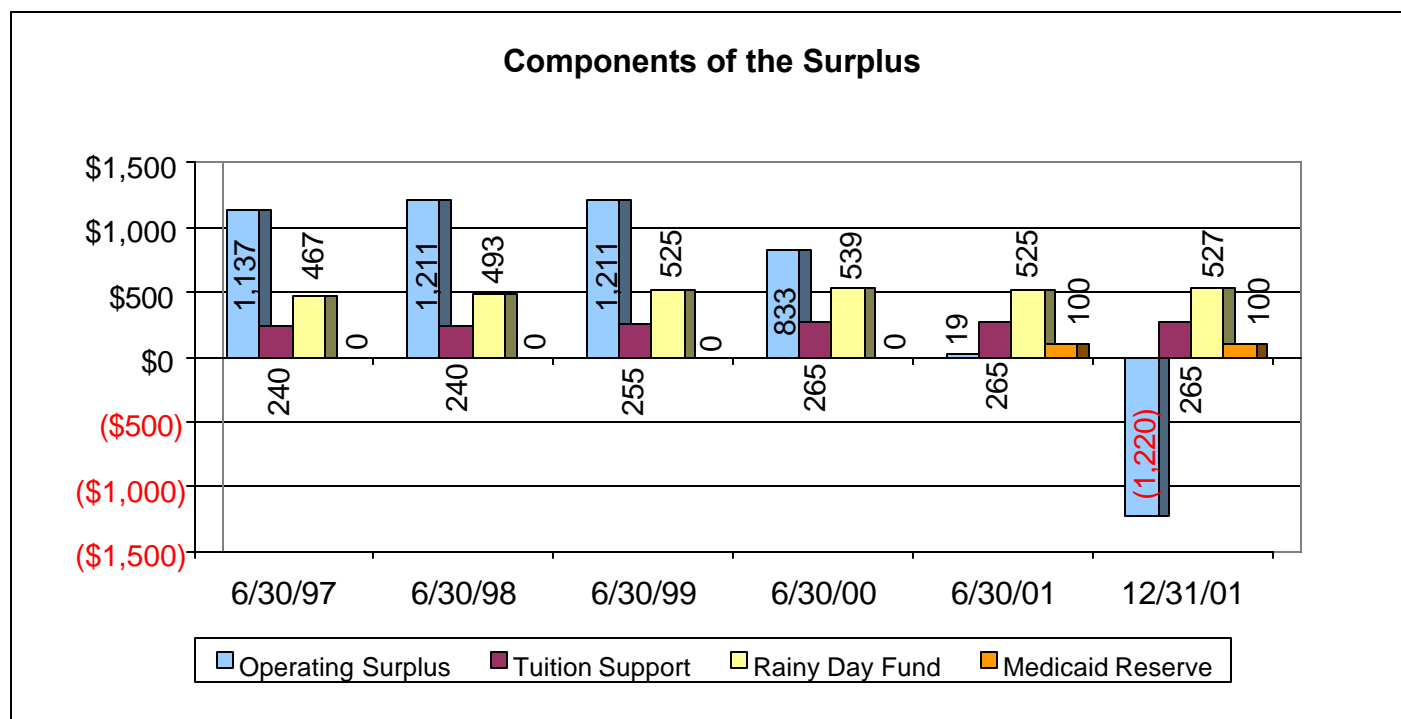


Fiscal Year	CPI-W	Expenditure	Revenue
Ended	Midwest	Growth	Growth
6/30/01	2.30%	9.77%	0.05%
6/30/00	4.90%	3.71%	-0.74%
6/30/99	1.80%	9.59%	7.36%
6/30/98	1.70%	8.98%	11.71%
6/30/97	2.40%	13.80%	6.22%
6/30/96	2.70%	14.12%	6.72%
6/30/95	3.30%	0.91%	8.62%
6/30/94	2.60%	-3.77%	12.14%
6/30/93	2.80%	9.81%	2.26%
6/30/92	2.40%	0.01%	2.68%

The graph presented to the left illustrates the annual growth in revenues and expenditures (plus other financing uses) compared to the rate of inflation, determined here as the annual change in Consumer Price Index (CPI) for the Midwest region. Expenditures have grown at a rate greater than inflation in three of the past four years. Expenditure growth has outpaced revenue growth in five of the past six years, resulting in the decline of the surplus.

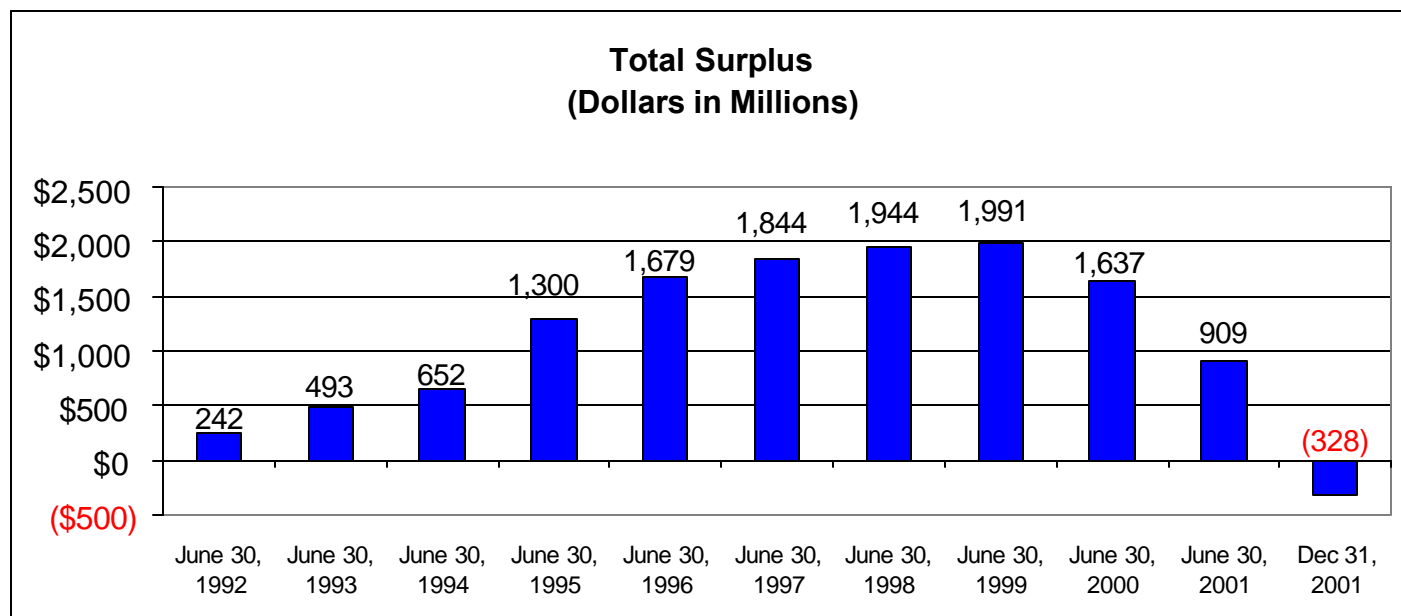
Note: Percentages shown in the table directly above are based on actual Revenues and Expenditures plus other financing uses while the graph at the top of the page uses amounts that have been rounded to the nearest \$10 million.

## General Fund and Property Tax Replacement Fund Surplus

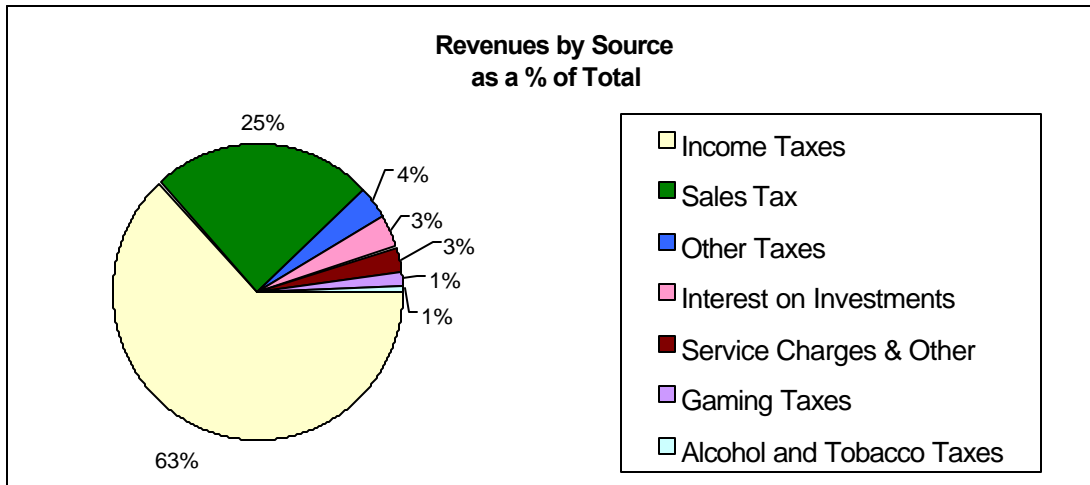


Frequent reference is made to the State's "surplus." The State's budget surplus represents the non-restricted funds available to support the basic expenditures from the State's General Fund. The budget surplus differs from the fund balance of the General Fund, which is reported in the Comprehensive Annual Financial Report (CAFR) and is shown on page 2 of this report. These amounts differ for several reasons. The fund balance is calculated on a modified accrual basis, however the budget surplus is calculated on a cash basis. Unspent, restricted funds which do not revert at year-end (non-reverting accounts) **are included in the fund balance, but not the budget surplus.**

The graph at the top of the page reports the balance of the individual components of the surplus at fiscal year-end for the past five years and at December 31, 2001. The graph below illustrates the total surplus at fiscal year-end for the last ten years and at December 31, 2001. As of December 31, 2001, the "surplus" is actually a deficit of \$328 million.

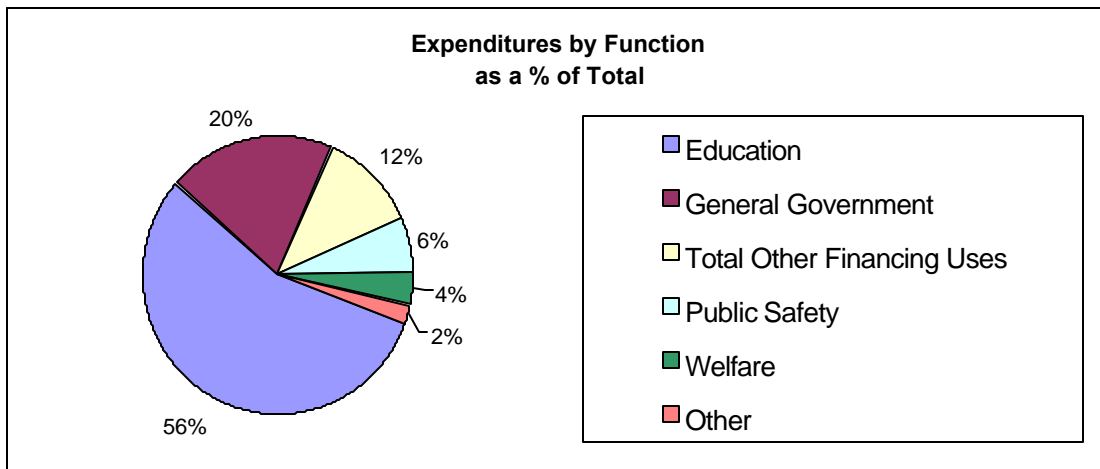


## General Fund Revenue by Source & Expenditures by Function



Nearly 88% of the General Fund revenue comes from sales tax, corporate income tax and individual income tax. Following is a breakdown of General Fund revenue by source for the fiscal year ended June 30, 2001, reported in thousands:

	Amount	% of total
Income Taxes	\$5,500,612	63.2%
Sales Tax	2,138,971	24.6%
Other Taxes	324,390	3.7%
Interest on Investments	296,168	3.4%
Service Charges & Other	250,994	2.9%
Gaming Taxes	122,201	1.4%
Alcohol and Tobacco Taxes	72,110	0.8%
<b>Total General Fund Revenue *</b>	<b>\$8,705,446</b>	

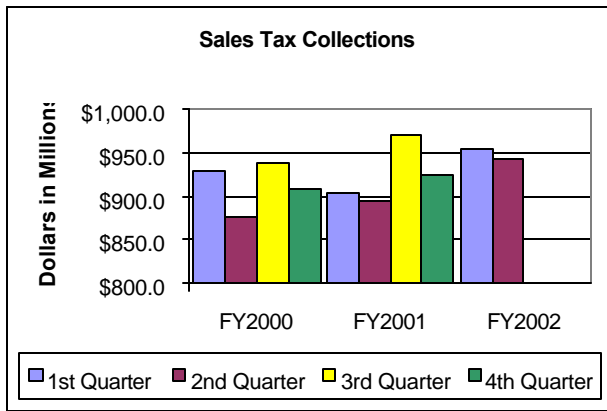


More than half of the General Fund expenditures for fiscal year 2001 related to education programs. Following is a breakdown of General Fund expenditures by function for the fiscal year ended June 30, 2001, reported in thousands:

	Amount	% of total
Education	\$5,471,491	55.9%
General Government	1,952,388	19.9%
Total Other Financing Uses	1,159,169	11.8%
Public Safety	610,933	6.2%
Welfare	387,646	4.0%
Other	213,026	2.2%
<b>Total General Fund Expenditures *</b>	<b>\$9,794,653</b>	

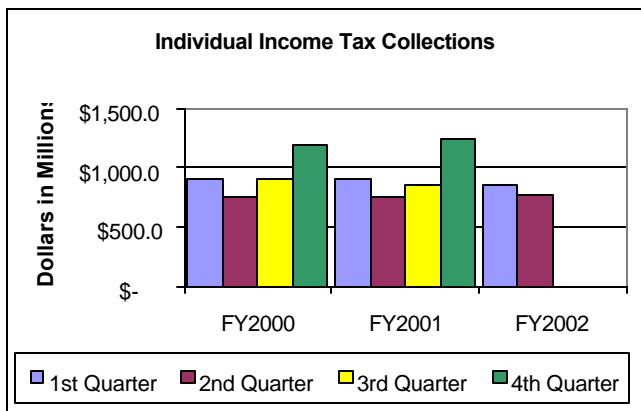
\*Source: State of Indiana Comprehensive Annual Financial Report. Figures differ from cash-basis reporting of revenue collections.

## General and Property Tax Replacement Fund Revenue Trends (Cash Basis)



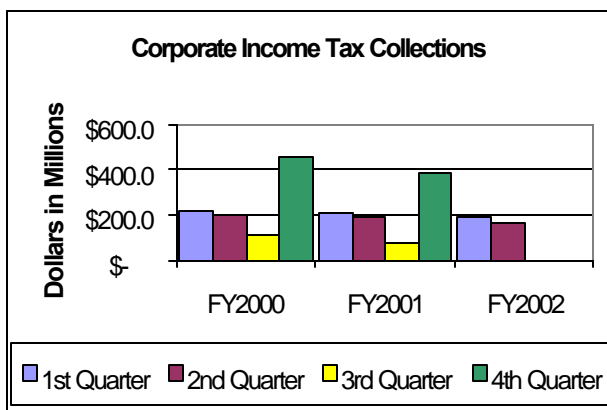
Sales Tax			
	FY2000	FY2001	FY2002
1st Quarter	\$ 928.1	\$ 903.9	\$ 953.1
2nd Quarter	877.1	895.3	942.3
3rd Quarter	936.9	970.1	
4th Quarter	909.3	924.6	
Total	\$ 3,651.4	\$ 3,693.9	

Sales tax and income tax, both individual and corporate, together represent more than 88% of the total revenue in the General Fund. Over the past ten quarters, sales tax collections have increased. Fiscal year 2001 total collections increased only 1.1% over fiscal year 2000, and year to date collections for fiscal year 2002 are \$96.2 million higher compared to fiscal year to date totals one year ago which represents a 5.3% increase.



Individual Income Tax			
	FY2000	FY2001	FY2002
1st Quarter	\$ 901.5	\$ 912.6	\$ 860.2
2nd Quarter	745.5	762.1	770.8
3rd Quarter	906.5	859.3	
4th Quarter	1,199.8	1,245.8	
Total	\$ 3,753.3	\$ 3,779.8	

Individual income tax collections for fiscal year 2001 increased by less than one percent over fiscal year 2000. Year to date collections for fiscal year 2002 are \$43.7 million lower than year to date collections at this time last year for a decrease of 2.6%.



Corporate Income Tax			
	FY2000	FY2001	FY2002
1st Quarter	\$ 220.4	\$ 205.6	\$ 189.8
2nd Quarter	199.7	187.9	164.5
3rd Quarter	108.6	75.7	
4th Quarter	456.6	386.1	
Total	\$ 985.3	\$ 855.3	

The most significant change in revenues, however, has occurred in corporate income tax collections. Fiscal year 2001 collections of \$855.3 million represented a 13.2% decrease when compared to fiscal year 2000. Year to date collections with two quarters of fiscal year 2002 complete total \$354.3 million, which is less than year to date collections one year ago of \$393.5 million representing a 10% decrease.



## Tobacco Master Settlement Agreement Fund

In November of 1998, Indiana joined 45 other states in approving a Master Tobacco Settlement Agreement which will result in approximately \$4 billion being received by the State over a 25-year period that began in June of 2000. The schedule below provides a summary of the financial activity in the Tobacco Master Settlement Agreement Fund, reflecting actual financials through fiscal year 2001 and projections for fiscal year 2002 and 2003.

Expenditure of the tobacco settlement proceeds is restricted by statute, which requires that a reserve fund be created. In the current biennium (July 1, 2001, through June 30, 2003), 40% of the anticipated proceeds are set aside in the reserve fund, shown below as "Savings Balance." Actual Receipts for 2000 and 2001 total \$318.99 million.

Financial Activity by Fiscal Year: (Dollars in Millions)	Fiscal Year Ending June 30.			
	2000	2001	2002	2003
Beginning Balance	\$0.00	\$78.41	\$109.49	\$57.49
Actual (2000 & 2001) and Estimated (2002 & 2003) Receipts	174.43	144.56	149.20	150.80
Amount held for Savings	(73.70)	(57.82)	(59.70)	(60.30)
Expenditure of Tobacco Settlement Proceeds	(22.32)	(55.66)	(141.50)	(152.90)
Ending Balance Available for Spending	78.41	109.49	57.49	(4.91)
Savings Balance (includes interest earnings) - End of Year	73.70	131.52	211.16	281.36
Combined Fund Balance - Tobacco Master Settlement Fund	<u>\$152.11</u>	<u>\$241.01</u>	<u>\$268.65</u>	<u>\$276.45</u>

The schedule below shows the total four-year appropriation of tobacco settlement funds for fiscal years 2000-2003. Over this four-year period, 27% of the funds appropriated for expenditure are dedicated to providing health insurance to low-income children. Seventeen percent (17%) of the appropriations are dedicated to tobacco education, prevention and use control. \$50 million, representing 13% of total appropriations, is set aside for prescription drug assistance for low-income senior citizens. The State Department of Health will receive \$15 million per year to fund operating expenses associated with community health centers or primary health centers for children. Nearly \$44 million, or 11% of total appropriations, has been dedicated to the development of new community residences for persons with developmental disabilities.

